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TEXACO CANADA LIMITED

1967

ANNUAL REPORT

TEXACO CANADA LIMITED

1967

ANNUAL REPORT

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COVER

In 1967, as part of its expansion of retail marketing facilities in all parts of the country, Texaco Canada Limited built this service station of original design on the Trans-Canada Highway near Perth, Ont. Incorporating full restaurant facilities, it is one of several new locations being developed on this important transcontinental route.

DIRECTORS AND OFFICERS

DIRECTORS

*A. W. Baucum	Executive Vice-President, Texaco Inc.	—	Houston, Texas
D. F. Bentley, Q.C.	Vice-President and General Counsel, Texaco Canada Limited	—	Montreal, Quebec
*Roland Bock	President and Managing Director, Bock & Tétreau Limitée	—	Montreal, Quebec
Stanley D. Clarke	President, Clarke Traffic Services Ltd.	—	Montreal, Quebec
*Frank M. Dawson	President, Texaco Canada Limited	—	Montreal, Quebec
Charles H. Dodson	Vice-President, Texaco Inc.	—	Chicago, Illinois
A. G. Farquharson	Vice-President, Texaco Canada Limited	—	Montreal, Quebec
*John W. Green	Executive Vice-President, Texaco Inc.	—	New York, N.Y.
H. J. Lang	Chairman and President, Canada Iron Foundries Ltd.	—	Montreal, Quebec
*L. J. McGowan	Chairman, Taylor, Woodrow of Canada Limited	—	Toronto, Ontario
Paul Murdock	President, John Murdock & Son Ltd.	—	Chicoutimi, Quebec
Victor deB. Oland	President and General Manager, Oland & Son Limited	—	Halifax, N.S.
D. G. Willmot	President, Anthes Imperial Ltd.	—	Toronto, Ontario
*Edward C. Wood	President, Edwood Ltd.	—	Montreal, Quebec

*Member Executive Committee

PRINCIPAL OFFICERS

Frank M. Dawson	President
D. F. Bentley, Q.C.	Vice-Pres. and Gen. Counsel
A. G. Farquharson	Vice-President
W. C. Howells	Vice-President
J. E. King	Vice-President
H. N. Cleworth	Comptroller
J. R. C. Boyce	Secretary
H. T. Hudson	Treasurer

Transfer Agents in Canada:
Montreal Trust Company,
Montreal, Toronto, Winnipeg,
Calgary and Vancouver.

Registrars in Canada:
Royal Trust Company, Montreal, Toronto,
Winnipeg, Calgary and Vancouver.

Transfer Agents and Registrars in United States:
The Royal Bank of Canada Trust Company,
68 William Street, New York, N.Y.

HIGHLIGHTS

FINANCIAL	1967	1966
Gross income	$284,086,593	$257,485,194
Net income	$ 17,055,474	$ 14,589,648
*Net income per common share	$ 1.74	$ 1.49
Cash dividends paid on common stock	$ 6,120,676	$ 5,829,215
Outstanding common shares (end of year)	9,715,359	3,238,453
Capital expenditures	$ 22,584,363	$ 17,016,695
Working capital (end of year)	$ 36,979,201	$ 40,876,229
Total assets (end of year)	$263,627,232	$254,493,196

OPERATING	1967	1966
Net crude oil production (barrels)	5,239,394	4,530,352
Refinery runs (barrels)	45,775,577	41,426,235
Sales of petroleum products (barrels)	45,937,704	42,067,480

*Adjusted for the three-for-one stock split on February 1, 1967

TO THE SHAREHOLDERS:

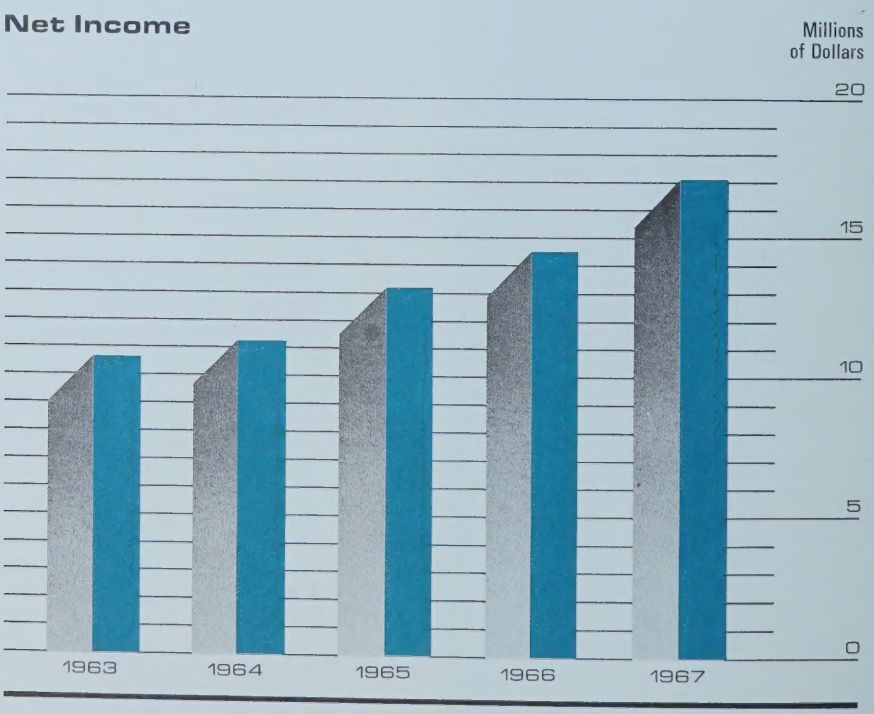
The Canadian economy continued to expand in 1967, with Gross National Product increasing by more than 7%. The production of crude oil and natural gas liquids in Canada rose by approximately 10% during the year, while demand for refined products increased by some 7%.

Texaco Canada's earnings reached a new high level, and reflected substantial increases in crude production as well as record product sales. In addition, emphasis continued to be placed on maximum economy and efficiency in all areas of the Company's operations.

FINANCIAL

Consolidated net income amounted to $17,055,474 for the year 1967, compared to $14,589,648 in 1966. Net income per common share was $1.74, compared to $1.49 in 1966.*

Dividends paid on common stock were $0.63 per



Construction began in 1967 of the new Texaco Building, Toronto, which on completion in the Fall of 1968 will consolidate major office facilities of the Company and its subsidiaries in the metropolitan area. The site for the handsome brick-faced structure, in suburban Don Mills, includes generous use of space for landscaping and employee parking.

share, up from $0.60 for 1966.* They totalled $6,120,676.

Capital expenditures of $22,584,000 during the year compared with $17,017,000 in 1966. During the past five years, additions to property, plant and equipment have amounted to more than $115,000,000.

A reduction in the Company's long-term debt brought it to $34,500,000 at the end of 1967, some $7,936,000 below the level one year earlier.

Taxes charged to income totalled $34,091,000, equal to $3.51 per common share. They included federal sales tax, municipal taxes and income taxes. In addition, provincial taxes on petroleum product sales in the amount of $111,955,000 were collected by the Company. These tax payments to governments in 1967 amounted to $146,046,000, an increase of 12.4% over the preceding year.

*Note: The Company's outstanding common shares were divided on a 3 for 1 basis on February 1, 1967.

PRODUCING

Industry production of crude oil and natural gas liquids in Canada during 1967 increased by approximately 10%, averaging over 1,100,000 barrels per day. The number of wells drilled by the industry decreased by about 9% due primarily to the continuing trend toward wider spacing under the proration system in Alberta. Additional discoveries and extensions in the Middle Devonian formation of the Rainbow and Zama areas of northwestern Alberta added substantially to crude oil reserves and production.

Texaco Canada's net production of crude oil and natural gas liquids during the year rose to an average of 14,354 barrels per day, an increase of 15.6% over the average for 1966.

Much of the Company's increase in production resulted from the record high demand for Canadian crude during the second half of the year due to the Middle East crisis. Higher allowables were allocated to high reserve pools such as Bonnie Glen, Wizard Lake, Swan Hills and Redwater. Texaco Canada's new production at Zama Lake contributed materially to the Company's increase during the year.

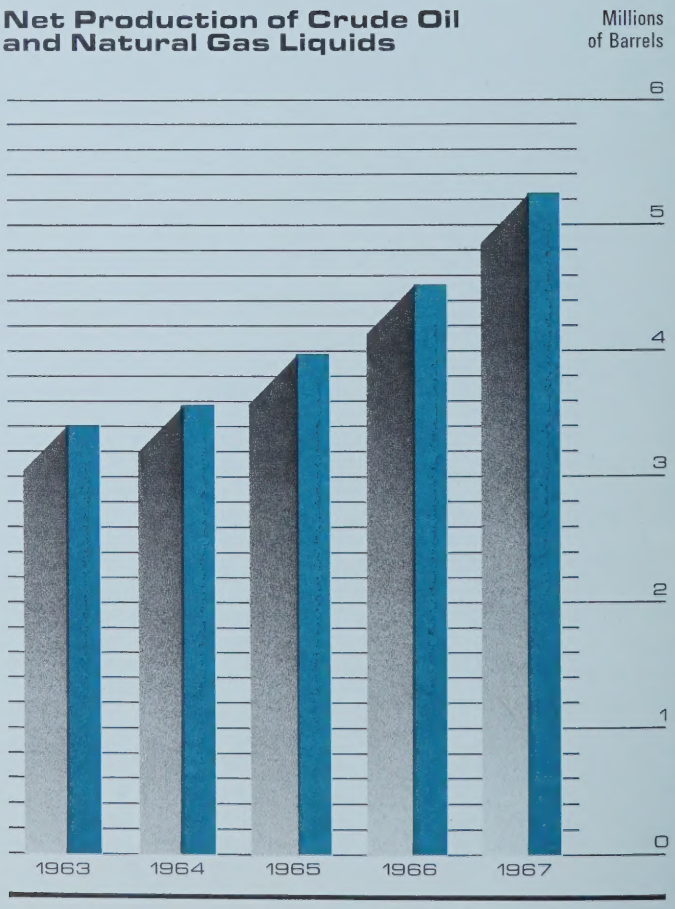
The Company expanded some of its principal operating units for the purpose of secondary recovery through water injection, and also joined with others in forming three new units.

The Company's land position remained strong. Among the new acquisitions during the year were one large Alberta reservation, three British Columbia permits and two permits in Saskatchewan. At year end, land holdings totalled 1,085,440 net working interest acres and 58,268 net royalty interest acres.

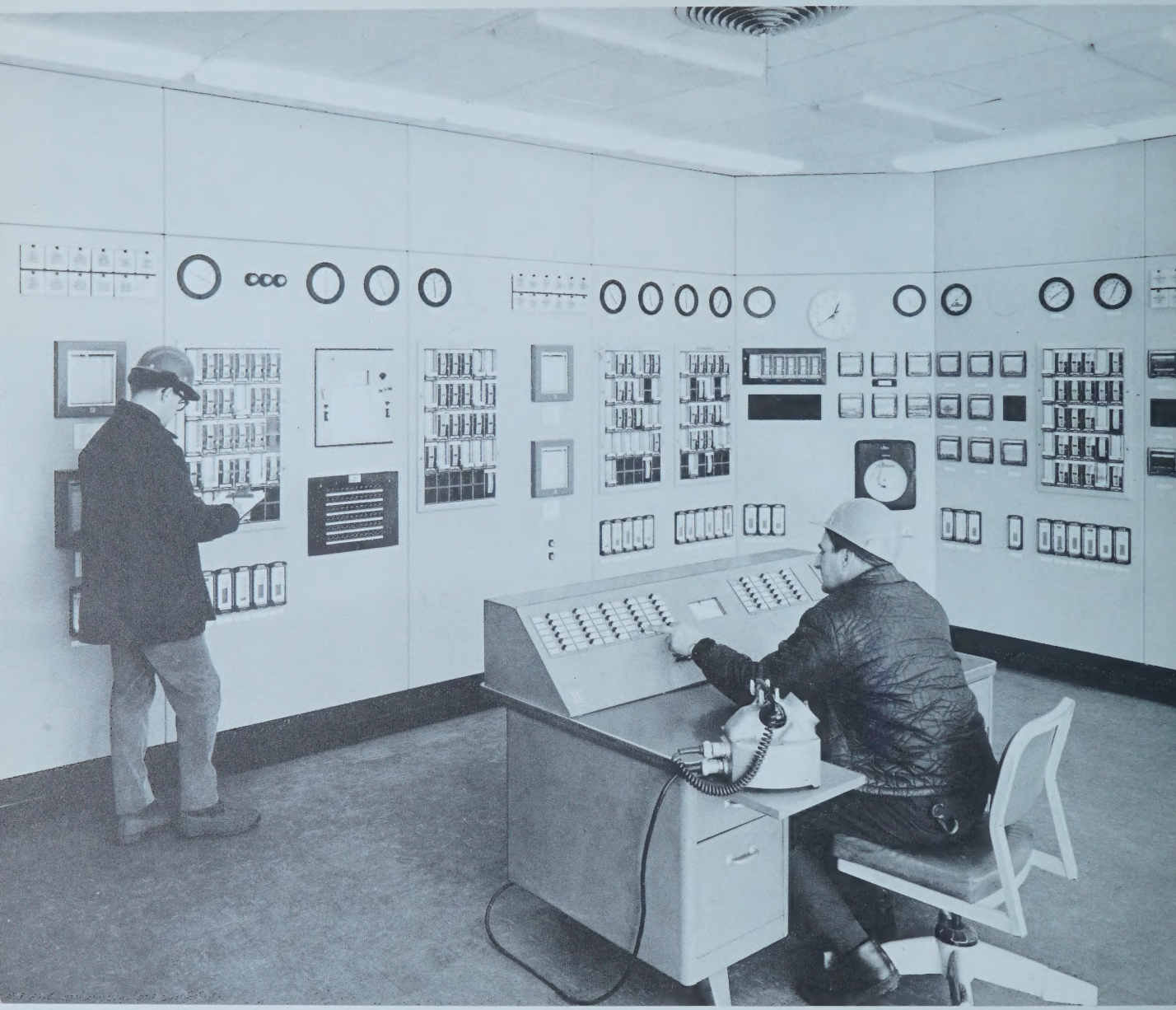
Evaluation of land holdings, through geological and geophysical work and drilling, was continued. The Company participated in the drilling of 41 wells in 1967, and in addition 11 wells were drilled on lands in which Texaco Canada owns a royalty interest. Of the 47 wells completed during the year, 35 were successful oil or gas wells.

The Company's proved reserves of crude oil and natural gas liquids were increased during the year, in spite of record production.

Net Production of Crude Oil and Natural Gas Liquids



A mobile "servicing rig" installs production tubing at a successful Texaco Canada well in the important Zama Lake field of northwestern Alberta, where the Company made additional discoveries during 1967.



A section of Montreal Plant's new control room which was completed in 1967. This consolidated installation replaces five independent control rooms and contributes to greater efficiency in the 59,000-barrel-per-day refinery, the Company's largest.

Crude oil processing at the Company's refineries increased by 10.5% to 125,413 barrels per calendar day in 1967 from 113,497 in 1966. Despite the Middle East crisis, and shortage of pipeline capacity for domestic crude, all plants obtained sufficient crude to meet sales requirements during 1967.

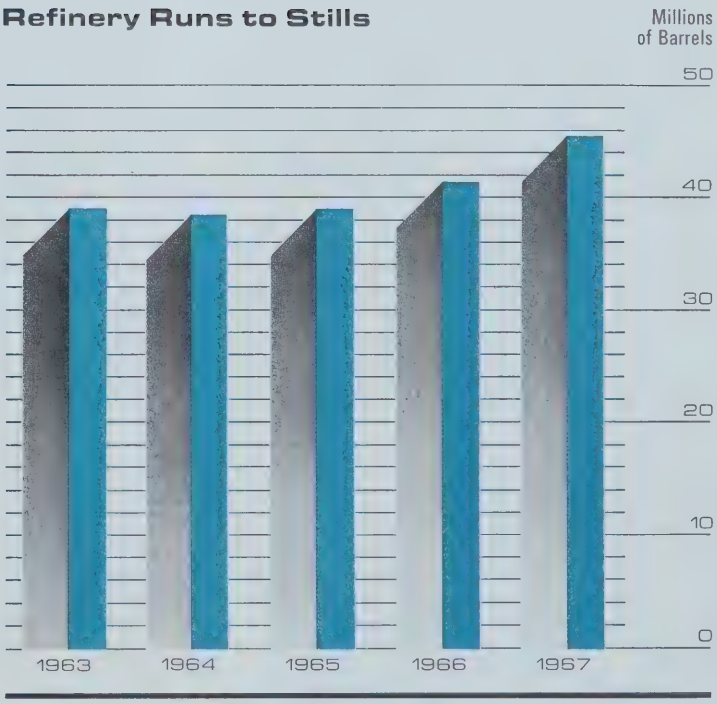
The expansion at Edmonton Plant to 16,000 BPCD was completed by year end, and engineering work has since commenced on a further expansion to 18,000 BPCD. In addition, plans for a new 3,000 BPCD Hydrotreater at Edmonton were completed, and construction will begin on this unit during 1968.

At Port Credit, the new feed pretreater for petrochemical facilities was completed late in 1967. This is expected to result in increased petrochemical production together with lower catalyst costs.

At Montreal Plant a centralized control room, which eliminated five independent control rooms in the older part of the refinery, was completed in 1967. A significant increase in plant efficiency will result from this new installation.

All plants continued their air and water conservation efforts, the most significant projects being the erection of high new boilerhouse stacks at both Port Credit and Montreal Plants.

Refinery Runs to Stills



TRANSPORTATION

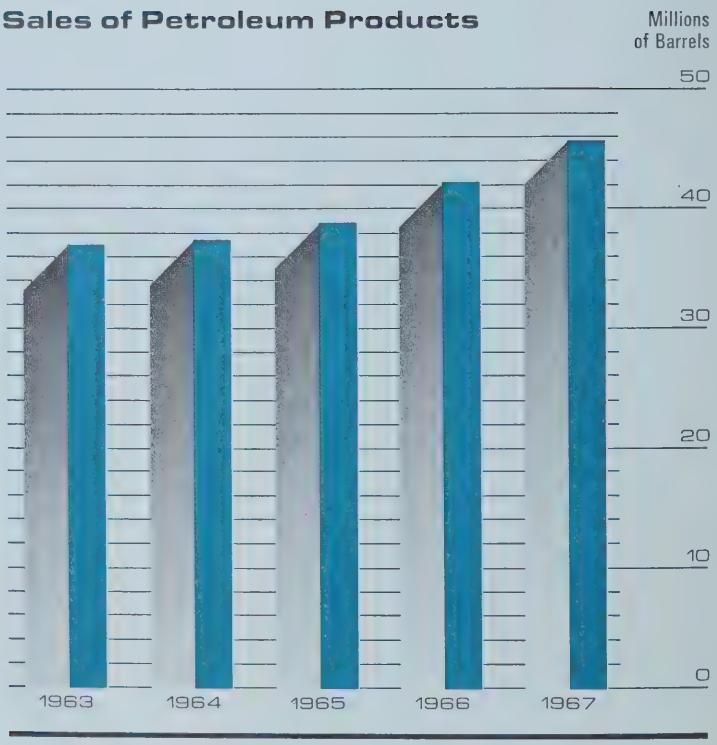
In Western Canada, Federated Pipe Lines Ltd. (50% owned) increased its average throughput of crude by 9.1% to 140,200 barrels per day, from 128,500 barrels per day in 1966.

Additional lines were laid under the St. Lawrence River at Montreal East by the Portland-Montreal crude pipeline system (16% owned) to provide capacity for expansion.

Movement of products by Company-owned vessels continued at a high level in 1967, supplemented extensively by spot and time charters on an advantageous cost basis.

Further displacement of smaller tank cars by new jumbo equipment continued throughout 1967 and led to lower average cost of rail transportation.

Sales of Petroleum Products



The Company's sales of petroleum products during 1967 totalled 125,857 barrels per calendar day, an increase of more than 9% over 1966. The record volume, coupled with generally stable prices in most areas, contributed to the improvement in operating earnings.

During the year, the Company continued its program to develop attractive new stations in strategically located market areas, and a number of older stations were replaced with modern facilities. Marketing expansion took place across the country, and Texaco's share of the market improved throughout the ten provinces.

An ultra-modern station of new design, incorporating restaurant facilities, was completed on the Trans-Canada Highway near Perth, Ontario. Further locations are being developed in order to improve the Company's retail representation on this important transcontinental route.

Expo 67 and other Centennial activities created an unusual opportunity for Texaco dealers to serve

A major Canadian event of 1967, the Pan-American Games, brought heavy tourist traffic to Winnipeg, Man. This was one of the scores of Texaco stations in the area which put out national flags for the occasion, along with a "Servicio" sign—a light-hearted reminder that most of the participating countries were Spanish speaking.

greatly increased numbers of visitors, and the "Destination Expo" program was implemented to provide customers with useful information as well as attractive premises. Special training sessions were also conducted across Canada to ensure that Texaco stations provided alert and courteous service to the many tourists. This program contributed to the increased sales activity and achievements during the year.

The costs of all marketing activities were under continual review and action was taken to reduce them wherever possible. Many large-capacity tank trucks were put into service, and new bulk station facilities were constructed to enable the Company to distribute its products more economically in markets already developed and to penetrate new marketing areas.

A significant increase in service station customers across Canada was secured for the Company and its dealer organization through an expanded credit card program.

GENERAL

The prospects are for continued but moderate growth of the Canadian economy generally during 1968. For the oil industry the outlook is encouraging, with the demand for petroleum products expected to rise by approximately 5 per cent over the previous year.

* * * * *

It is with deep regret that we record the death of Mr. John M. Pritchard on November 9. Mr. Pritchard, a former President and Chairman of the Board of the Company, had served Texaco Canada Limited and its predecessor companies with devotion and distinction for more than 44 years.

At the time of his death, Mr. Pritchard was a Director and member of the Executive Committee. His wide knowledge and experience will be greatly missed.

* * * * *

The sincere appreciation of the directors is once again extended to the shareholders for their continuing support and to the employees for their loyalty and contributions to the Company's growth during the past year.

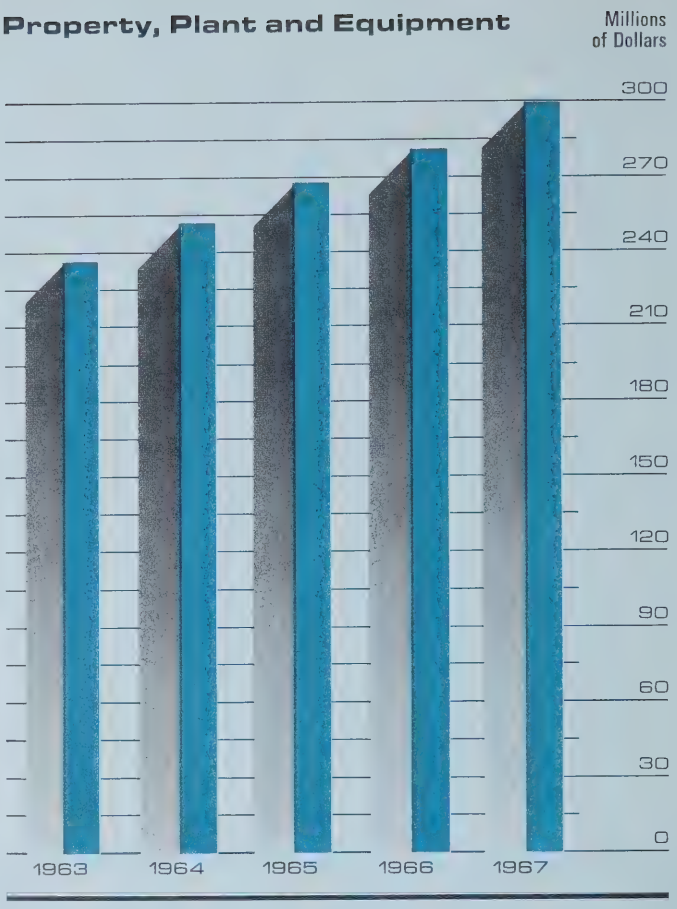
On behalf of the Board,

T. M. Dawson

President

Montreal, Quebec, March 29, 1968

Property, Plant and Equipment



CONSOLIDATED STATEMENT OF INCOME AND EARNED SURPLUS

TEXACO CANADA LIMITED

AND SUBSIDIARY COMPANIES

	FOR THE YEARS ENDED DECEMBER 31	
	1967	1966
GROSS INCOME		
Sales and services	$281,444,685	$254,859,821
Income from investments	2,481,207	2,416,079
Other income	160,701	209,294
	$284,086,593	$257,485,194
DEDUCTIONS		
Costs and operating expenses	$173,650,712	$161,795,209
Selling, general and administrative expenses (Note 3)	43,150,884	36,997,089
Depreciation, depletion and amortization (Note 2)	14,272,080	12,995,664
Interest and discount on long-term debt	1,866,295	1,972,213
*Taxes, other than income taxes	23,789,148	20,182,371
Provision for income taxes	10,302,000	8,953,000
	$267,031,119	$242,895,546
NET INCOME FOR THE YEAR	$ 17,055,474	$ 14,589,648
EARNED SURPLUS AT BEGINNING OF YEAR	113,350,536	104,740,103
	$130,406,010	$119,329,751
DIVIDENDS DECLARED—Preferred stock	$ 150,000	$ 150,000
—Common stock	6,412,137	5,829,215
	$ 6,562,137	$ 5,979,215
EARNED SURPLUS AT END OF YEAR	$123,843,873	$113,350,536

* In addition, provincial motor fuel and oil taxes were paid or accrued in the amount of $111,954,562 during 1967 and $100,824,582 during 1966.

See accompanying notes to consolidated financial statements.

CONSOLIDATED BALANCE SHEET

ASSETS

CURRENT ASSETS	1967	1966
Cash	$ 6,057,233	$ 5,604,819
Accounts receivable	58,343,736	53,602,738
Inventories—		
Crude and refined oil products and merchandise valued on average cost basis which in the aggregate was lower than market	39,046,097	41,784,790
Materials and supplies, at cost	1,701,437	1,476,079
Total current assets	$105,148,503	$102,468,426
INVESTMENTS		
Investments in non-subsidiary companies, at cost	$ 3,587,697	$ 4,087,756
Receivables, secured by mortgages, agreements of sale, etc.	8,232,321	8,178,751
Total investments	$ 11,820,018	$ 12,266,507
PROPERTY, PLANT AND EQUIPMENT, at cost		
Producing	$ 59,293,335	$ 52,993,595
Manufacturing	117,818,260	114,422,039
Marketing	118,358,883	110,191,115
Other	3,935,939	4,543,661
	$299,406,417	$282,150,410
Less:		
Depreciation, depletion and amortization (Note 2)	160,206,392	149,837,729
Net property, plant and equipment	$139,200,025	$132,312,681
DEFERRED CHARGES		
Prepaid expenses	$ 3,072,489	$ 2,923,403
Premium paid on subsidiary companies' capital stock, less amortization	4,164,593	4,379,275
Other deferred charges (Note 4)	221,604	142,904
Total deferred charges	$ 7,458,686	$ 7,445,582
	$263,627,232	$254,493,196

Approved on behalf of the Board:
F. M. DAWSON, Director
EDWARD C. WOOD, Director

LIABILITIES AND SHAREHOLDERS' EQUITY

CURRENT LIABILITIES (Note 1)	1967	1966
Accounts payable and accrued liabilities		
Affiliated companies	$ 25,241,076	$ 23,653,683
Other	18,465,509	17,479,576
Sales, motor fuel and sundry taxes	9,543,077	9,157,291
Income taxes	5,326,375	7,314,968
Long-term debt due within one year (Note 4)	7,807,000	2,491,875
Preferred dividend payable	37,500	37,500
Common dividend payable	1,748,765	1,457,304
Total current liabilities	$ 68,169,302	$ 61,592,197
LONG-TERM DEBT (Notes 1 and 4)	$ 34,500,313	$ 42,436,719

SHAREHOLDERS' EQUITY

PREFERRED STOCK		
4% cumulative redeemable preferred shares of $100 par value (Redeemable at $102.50 on thirty days' notice) Authorized — 77,500 shares Issued — 37,500 shares	$ 3,750,000	$ 3,750,000
COMMON STOCK AND SURPLUS		
Common shares of no par value (Note 5) Authorized — 14,926,578 shares Issued — 9,715,359 shares	$ 33,363,744	$ 33,363,744
Earned surplus	123,843,873	113,350,536
Total common stock and surplus	$157,207,617	$146,714,280
	$263,627,232	$254,493,196

See accompanying notes to consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

TEXACO CANADA LIMITED AND SUBSIDIARY COMPANIES YEAR ENDED DECEMBER 31, 1967

NOTE 1

United States dollar balances included in current liabilities have been converted to Canadian dollars at the rate of exchange at December 31, 1967. Long-term debt payable in United States dollars has been converted at rates of exchange in effect when the notes were issued.

NOTE 2

Depletion charged to income during 1967 totalled $2,332,000, and at December 31, 1967 the accumulated balance of depletion in the Companies' accounts was $11,884,000.

NOTE 3

Selling, general and administrative expenses include $308,000 written off premium paid on subsidiary companies' capital stock and $227,000 fees and other remuneration paid to directors.

NOTE 4

The long-term debt of Texaco Canada Limited and its subsidiaries at December 31, 1967 and 1966, was as follows:

	1967	1966
Texaco Canada Limited—		
First mortage bonds (authorized and issued $20,000,000)		
3% Sinking fund bonds, 1946 series, due in equal annual instalments of $465,000 to 1970 and $920,000 in 1971	$ 2,315,000	$ 2,780,000
3¼% Sinking fund bonds, 1947 series, due in equal annual instalments of $535,000 to 1971 and $545,000 in 1972	2,685,000	3,220,000
Due to Texaco Inc.		
4% Notes due $1,000,000 annually to 1982 (1967 U.S. $15,000,000, 1966 U.S. $16,000,000)	16,168,438	17,249,219
4½% Note due 1968 (U.S. $5,000,000)	5,406,250	5,393,750
4½% Note due 1969 (U.S. $10,000,000)	10,803,125	10,803,125
Regent Refining (Canada) Limited and Subsidiary—		
4¼% Sinking fund debentures Series A, due in equal annual instalments of $400,000 to 1974 and $1,400,000 in 1975	4,200,000	4,600,000
4¾% First mortgage sinking fund bonds, Series A, due in equal annual instalments of $62,500 to 1981	872,500	937,500
	$42,450,313	$44,983,594
Less: Long-term debt due within one year and bonds held for sinking fund requirements (1967 $143,000; 1966 $55,000)	7,950,000	2,546,875
	$34,500,313	$42,436,719

Deferred charges at December 31, 1967 included $114,629 unamortized debt discount and expense.

NOTE 5

By Supplementary Letters Patent dated February 1, 1967, the common shares of no par value stock were subdivided three for one. Accordingly the number of authorized common shares of no par value was increased from 4,975,526 to 14,926,578 and the number of shares issued from 3,238,453 to 9,715,359.

NOTE 6

The Companies' Group Pension Plan is available to substantially all employees. The estimated cost of the Plan is amortized by charges to income over the estimated service lives of the employees included in the Plan. In connection with a proposed change in the method of funding the Companies' Group Pension Plan, an actuarial study is currently being made and pending the completion of this study the estimated past service pension liability arising from service prior to December 31, 1967, has not been determined. However, all estimated deposit requirements for 1967 covering current and past service have been paid and charged to income.

NOTE 7

As of December 31, 1967, Texaco Canada Limited and subsidiary companies had long-term leases expiring more than three years from such date, covering service stations, tankers, office buildings and other facilities. Minimum amounts payable under such commitments without reduction for related rental income are expected to average $7,500,000 annually for the next three years.

Under long-term agreements with pipeline companies in which stock interests are held, the Company guarantees specified revenue from crude and refined products shipped and in the event such companies are unable to meet debt obligations, Texaco Canada Limited may be required to advance funds against future transportation charges. The contingent liability arising from such agreements, together with certain liabilities on discounted notes, amounted to $15,115,000 at December 31, 1967. Under certain of the long-term lease agreements for service stations, Texaco Canada Limited is contingently liable for loans to the lessor in an amount not exceeding $18,200,000 due in 1970. No losses are anticipated by reason of such contingent obligations.

In the opinion of the Company's General Counsel while it is impossible to ascertain the ultimate and legal financial liability with respect to other contingent liabilities, including lawsuits, income taxes, claims, guarantees, etc., the aggregate amount of such liability is not materially important in relationship to the total consolidated assets of the Company and its subsidiaries.

AUDITORS' REPORT

TO THE SHAREHOLDERS TEXACO CANADA LIMITED

We have examined the consolidated balance sheet of Texaco Canada Limited and its subsidiaries as at December 31, 1967 and the consolidated statements of income and earned surplus and source and disposition of funds for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion these consolidated financial statements present fairly the financial position of the company and its subsidiaries as at December 31, 1967, and the results of their operations and the source and disposition of their funds for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

February 5, 1968

Montreal, Quebec

Riddell, Stead, Graham & Hutchison,
Chartered Accountants

A TEN YEAR REVIEW OF OUR BUSINESS

	1967	1966
Gross income	$284,086,593	$257,485,194
Net income	$ 17,055,474	$ 14,589,648
Dividends declared on preferred stock	$ 150,000	$ 150,000
Net income on common stock	$ 16,905,474	$ 14,439,648
*Net income per common share	$ 1.74	$ 1.49
Cash dividends paid on common stock	$ 6,120,676	$ 5,829,215
*Cash dividends paid per common share	$ 0.63	$ 0.60
Capital expenditures	$ 22,584,363	$ 17,016,695
Provision for depreciation, depletion and amortization	$ 14,272,080	$ 12,995,664
At end of year—		
Working capital (current assets less current liabilities)	$ 36,979,201	$ 40,876,229
Ratio current assets to current liabilities	1.54	1.66
Property, plant and equipment (gross)	$299,406,417	$282,150,410
Property, plant and equipment (net)	$139,200,025	$132,312,681
Total assets	$263,627,232	$254,493,196
Long-term debt	$ 34,500,313	$ 42,436,719
Number of outstanding common shares (of no par value)	9,715,359	3,238,453
Number of common shareholders	5,478	4,581
Number of outstanding preferred shares ($100 par value)	37,500	37,500
Number of preferred shareholders	859	912
Gross crude oil production (barrels)	6,018,262	5,135,386
Net crude oil production (barrels)	5,239,394	4,530,352
Crude oil purchases, less sales (barrels)	38,402,088	37,745,413
Sales of petroleum products (barrels)	45,937,704	42,067,480
Refinery runs to stills (barrels)	45,775,577	41,426,235
Total payrolls and employee benefits	$ 27,711,347	$ 25,077,303
Number of employees (end of year)	3,424	3,347

*Net income and cash dividends paid per common share have been adjusted for the three-for-one stock split on February 1, 1967.

1965	1964	1963	1962	1961	1960	1959	1958
$238,103,243	$227,023,955	$216,361,875	$196,549,259	$192,278,280	$188,549,576	$185,138,196	$176,166,215
$ 13,150,768	$ 11,363,086	$ 10,739,740	$ 9,706,965	$ 10,192,968	$ 11,100,187	$ 10,388,014	$ 9,427,929
$ 150,000	$ 150,000	$ 150,000	$ 150,000	$ 150,000	$ 150,000	$ 152,556	$ 160,000
$ 13,000,768	$ 11,213,086	$ 10,589,740	$ 9,556,965	$ 10,042,968	$ 10,950,187	$ 10,235,458	$ 9,276,929
$ 1.34	$ 1.15	$ 1.09	$ 0.98	$ 1.03	$ 1.13	$ 1.05	$ 0.95
$ 5,181,525	$ 5,181,525	$ 5,181,525	$ 5,181,525	$ 5,181,525	$ 5,181,525	$ 5,181,525	$ 5,181,525
$ 0.53	$ 0.53	$ 0.53	$ 0.53	$ 0.53	$ 0.53	$ 0.53	$ 0.53
$ 20,389,129	$ 18,733,716	$ 36,664,273	$ 19,199,564	$ 14,248,708	$ 15,574,658	$ 15,924,089	$ 11,634,834
$ 15,939,024	$ 12,475,039	$ 12,235,891	$ 9,593,813	$ 8,927,453	$ 9,563,330	$ 9,159,366	$ 8,059,638
$ 38,609,518	$ 37,278,650	$ 28,421,054	$ 28,642,157	$ 31,952,798	$ 34,901,343	$ 38,330,102	$ 40,440,730
1.65	1.70	1.45	1.52	1.65	1.89	2.11	2.35
$269,645,181	$254,396,551	$238,506,079	$204,396,738	$187,910,792	$175,568,622	$161,846,575	$147,171,928
$129,368,529	$126,310,359	$120,922,891	$ 99,407,498	$ 89,540,331	$ 84,833,414	$ 79,327,116	$ 73,179,409
$246,103,740	$235,998,800	$232,292,303	$200,557,737	$187,659,911	$174,903,602	$166,948,528	$159,766,920
$ 44,975,575	$ 48,180,375	$ 40,582,062	$ 22,228,000	$ 20,151,500	$ 22,380,000	$ 24,609,500	$ 26,839,000
3,238,453	3,238,453	3,238,453	3,238,453	3,238,453	3,238,453	3,238,453	3,238,453
4,719	4,955	5,297	5,351	5,585	5,870	5,810	6,301
37,500	37,500	37,500	37,500	37,500	37,500	37,500	40,000
934	1,086	1,104	1,168	1,197	1,264	1,302	1,381
4,554,086	4,085,678	3,840,218	3,651,554	2,989,131	2,185,867	2,162,847	1,511,720
3,978,242	3,592,516	3,402,152	3,251,994	2,689,453	1,977,007	1,956,333	1,374,365
35,179,792	34,383,066	35,152,165	31,126,906	31,087,449	30,333,220	30,818,190	27,105,587
38,839,239	37,437,054	37,018,663	33,838,885	33,115,505	31,691,651	31,376,915	28,979,878
39,049,233	38,410,987	39,025,203	33,684,797	33,364,847	33,409,726	34,591,416	28,896,299
22,293,856	$ 21,114,061	$ 19,491,466	$ 17,274,602	$ 16,726,324	$ 16,411,238	$ 15,400,363	$ 13,648,174
3,239	3,233	3,211	2,715	2,711	2,718	2,738	2,686

DISTRIBUTION OF 1967 GROSS INCOME

GROSS INCOME	Amount	Percent
Sales and services	$281,444,685	99.07
Other income	2,641,908	.93
	$284,086,593	100.00
HOW IT WAS USED		
Costs, operating, selling and general expenses	$190,956,544	67.23
Payrolls and employee benefits	27,711,347	9.75
Income and other taxes	34,091,148	12.00
Depreciation, depletion and amortization	14,272,080	5.02
Net income	17,055,474	6.00
	$284,086,593	100.00

SOURCE AND DISPOSITION OF FUNDS

SOURCE			
Net income	$17,055,474		
Depreciation, depletion and amortization	14,272,080	$ 31,327,554	84.48
Decrease in working capital		3,897,028	10.51
Other (net)		1,858,324	5.01
		$ 37,082,906	100.00
DISPOSITION			
*Capital expenditures		$ 22,584,363	60.91
Reduction in long-term debt		7,936,406	21.40
Dividends declared—preferred stock		150,000	.40
—common stock		6,412,137	17.29
		$ 37,082,906	100.00

*Capital expenditures	
Producing	$ 7,402,529
Manufacturing	3,633,869
Marketing	11,446,292
Other	101,673
	$22,584,363

TEXACO CANADA LIMITED

markets a full line of petroleum products in all ten provinces.....

AUTOMOTIVE:
Sky Chief gasoline
Fire Chief gasoline
Havoline motor oil
Texaco motor oil
Texaco anti-freezes
Marfak lubricants
Gear lubricants
Texamatic transmission fluids
Quality Line specialties, such as
Car Cleaner and Polish
Upper Cylinder Lubricant
Windshield De-Icer
Tire Inflator - Puncture Sealer

AVIATION:
Aviation gasolines
Jet fuels
Aircraft engine oils
Synthetic jet engine oils
Aircraft hydraulic oils
Aircraft greases
Aircraft gear oils

MARINE:
Sea Chief gasoline
Outboard motor oil
Marine bunker fuels
Marine lubricants

GASES:
Liquefied petroleum gases

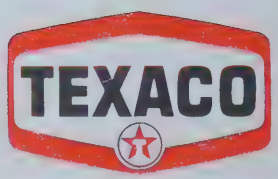
FUEL OILS:
Fuel Chief heating oils
Kerosene
Diesel fuels
Tractor fuels
Industrial fuels

MISCELLANEOUS:
Rustproof compounds

INDUSTRIAL:
Anti-friction bearing greases
Compressor oils
Construction and mining equipment lubricants
Diesel engine lubricants
Farm machinery lubricants
Forest and paper pulp industry lubricants
Gas engine lubricants
Hydraulic oils
Industrial gear lubricants
Industrial greases
Metalworking lubricants and coolants
Railway lubricants
Rubber processing oils
Steel mill lubricants
Texspray cotton conditioner
Textile mill lubricants

PETROCHEMICALS:
Benzene
Toluene
Xylene
Hexane
Feedstocks for chemical plants
Petroleum additives
Rust inhibitors
Solvents

WHEREVER YOU GO...TRUST



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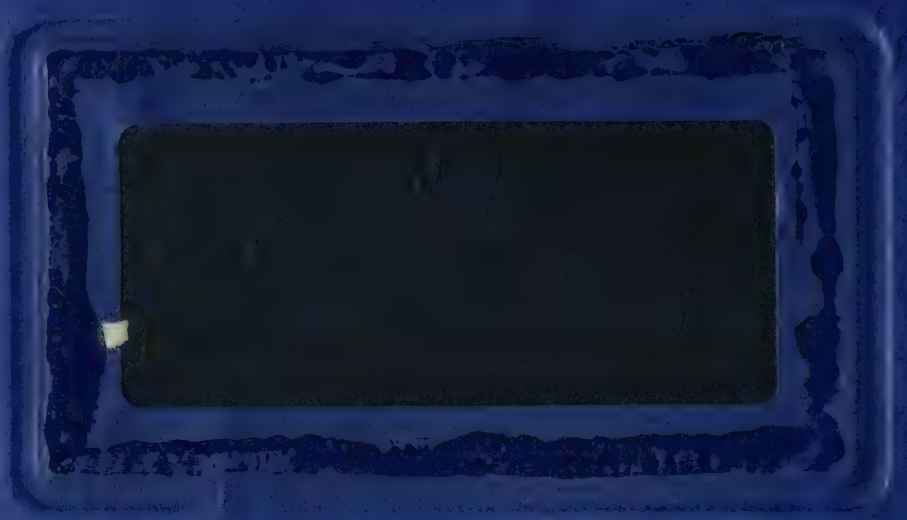
TEXACO CANADA

LIMITED



G. W. NICHOLSON & COMPANY LIMITED

BUSINESS ESTABLISHED 1919
MEMBERS OF THE TORONTO STOCK EXCHANGE

TELEPHONE: 362-2831 (AREA 416)
CABLES: NICHOLCO, TORONTO

67 RICHMOND STREET WEST
TORONTO 1, CANADA

November, 1967

TEXACO CANADA

LIMITED

Although Texaco Canada is trading at the lowest price : earnings multiple of the four major Canadian integrated oil companies, the company's earnings growth is expected to out-perform its competitors. In addition, Texaco Canada has exciting exploration potential at North Zama where the impact of continuing success could be substantial on the company's relatively small capitalization. At current levels, Texaco Canada is recommended for further capital appreciation.

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TEXACO CANADA LIMITED

Capitalization (as at December 31, 1966)

		%
Long term debt	$42,436,719	22.0
Preferred stock	3,750,000	1.9
Common stock (9,715,359 shares)	33,363,744)	76.1
Earned Surplus	113,350,536)	
	$192,900,999	100.0

Key Data:

1967 Price Range : $33-22 Current Price : $29
1966 Earnings per Share : $1.49
1967 est. earnings per share : $1.75
1970 est. earnings per share : $2.70
Current Dividend : $0.72
Current Dividend Yield : 2.48%
P:E Multiple on 1966 earnings : 19.5x
P:E Multiple on 1967 est. earnings : 16.6x
P:E Multiple on 1970 est. earnings : 10.7x

Summary:

1) Texaco Canada's oil production is expected to grow at a substantially better rate than the Canadian oil industry total production and the other three major Canadian integrated oil companies.

2) Texaco Canada's earnings will benefit more from current product price improvement than the three other large Canadian integrated oil companies.

3) The recent oil discovery at North Zama has the potential to make substantial additions to Texaco Canada's oil reserves and oil production, also the impact on Texaco Canada's earnings could be substantial because of the company's small capitalization.

Conclusion:

We recommend the purchase of Texaco Canada common shares which are selling at the lowest price : earnings multiple of the four major Canadian integrated oil companies, yet is likely to have the best growth rate of earnings in the next five years.

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Historical Background

The business of Texaco Canada stems from a partnership of McColl and Anderson started in 1873, which was incorporated into McColl Brothers Limited in 1918. In 1926, McColl Brothers, Limited merged with Frontenac Oil Refineries, Limited to form the McColl-Frontenac Oil Company. Control of this company was acquired in 1938 by Texaco, Inc. Other major acquisitions included Perfection Petroleum Company Limited, British Columbia Fuel Co. Ltd., Montreal Pipeline Co. Ltd., Portland Pipe Line Corp., and Regent Refining (Canada) Limited. In 1958, shareholders approved a name change to Texaco Canada Limited.

Nature of Business

Texaco Canada is a fully integrated Canadian oil company engaged in the production and refining of crude oil and natural gas liquids and distribution in Canada of industrial oils, lubricants, gasoline, propane, kerosene and fuel oils. Products of the company are marketed under the various trade names of Texaco and Havoline motor oils, Sky Chief gasoline and Marfak lubricants.

The Parent Company

Texaco, Inc. of the U.S.A. holds approximately 68% of the common shares and designates five of Texaco Canada's fourteen directors,

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four of whom are officers and/or directors of Texaco, Inc., Texaco, Inc. also has a wholly-owned subsidiary, Texaco Exploration Company, which produces and explores for oil in Canada in direct competition with Texaco Canada.

Marketing

Distribution of Texaco Canada's products is mainly through approximately 1,480 owned and leased service stations and approximately 3,900 other retail sales outlets. The company owns marine terminals along the Atlantic and Pacific coasts, the St. Lawrence Waterways, and the Great Lakes. There are also marketing bulk stations and warehouses, for wholesale distribution of petroleum products in all provinces of Canada.

Recently, Texaco Canada has constructed "Texaco Sky Service" centres, designed to service private and commercial aircraft at airports in Toronto, Montreal, Vancouver, and Calgary.

Texaco Canada's petroleum product sales account for about 11% of total Canadian sales. Net dollar sales have grown at a 6.5% compound annual rate in the last five years. This has occurred while sales of petroleum products by volume increased at a 4.9% rate. The better growth rate in net dollar sales is attributable to improving profit margins on refined products and a 11.0% growth rate for Texaco Canada's crude oil and natural gas liquid production.

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Texaco Canada Sales Analysis

	1962	1963	1964	1965	1966
Sales of petroleum products (000's bbl)	33,839	37,019	37,437	38,839	42,067
% increase over previous year	2.3%	9.4%	1.2%	3.9%	8.1%
Sales & Services (000's$)	194,522	214,237	224,657	235,116	254,860
Less gross pretax income attributable to oil production @ $2.50/bbl. (000's$)	8,132	8,500	8,987	9,966	11,360
Estimated gross receipts on refined products (000's$)	186,390	205,737	215,670	225,150	243,500
Gross Profit Margins					
Gross receipts per bbl of sales	$5.50	$5.55	$5.75	$5.79	$5.79
Gross receipts per gallon of sales	15.7¢	15.9¢	16.4¢	16.5¢	16.5¢

A comparison with the other three major Canadian integrated oil companies reveals that the growth of net dollar sales at 6.5% is second only to B.A. Oil. However, B.A. Oil sales growth is understood to be inflated with low profit margin volume sales to discounters and wholesalers. Per share statistics are misleading because of the large difference in market price of the common shares.

More revealing figures are those giving the amount of volume sales and dollar sales the investor gets per $100 dollars of share market value purchased. Although, the following table provides per share data, it more importantly shows how the investor gets more dollar sales and product

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volume sales for his investment dollar now than he can buy through share purchase of the other major Canadian integrated oils.

Comparison of Integrated Oil Companies' Marketing Statistics

	B.A. Oil	Imperial	Shell	Texaco
Compound Annual Growth Rate (5 years)				
Net sales dollar	8.6%	5.6%	6.4%	6.5%
Petroleum products volume	8.3%	4.6%	n.a.	4.9%
Per Share				
1966 Net dollar sales	$25.80	$37.20	$16.60	$26.20
1966 Petroleum product volume	3.10 bbl.	4.09 bbl.	2.02 bbl.	4.34 bbl.
Per $100 Market Value of Common*				
1966 Net dollar sales	$67.80	$55.60	$52.00	$82.00
1966 Petroleum product volume	8.18 bbl.	6.10 bbl.	6.33 bbl.	13.60 bbl.

*Market prices: B.A. @ $38., Imperial @ $67., Shell @ $32., Texaco @ $32.

Transportation

Texaco Canada through subsidiaries owns two tankers which operate on the Great Lakes, St. Lawrence River, and the Atlantic Seaboard. The combined capacity is 49,000 barrels per trip. Their purpose is to transport refined products from the refineries to the company's marine terminals.

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Texaco Canada also has an interest in three pipelines. It has a 16% interest in the Montreal Pipe Line Co. Ltd. and the Portland Pipe Line Corp. which own and operate a pipeline from Portland, Maine to Montreal East. This pipeline has a capacity of 356,000 barrels per day. Texaco Canada also has a 33.1/3% interest in Northern Pipe Line Co., which operates a products line from Montreal to Maitland, Ontario with a lateral to Ottawa. Products in these lines amount to approximately 85,000 barrels per day. Texaco Canada has a 50% interest in Federated Pipe Lines Ltd., which services the Swan Hills area fields with a 123 mile pipeline at a rated capacity of 184,000 barrels per day.

Other transportation facilities are provided by motor trucks, leased railway tank cars and chartered lake or ocean tankers.

Refining

The refining operations of Texaco Canada have grown in keeping with the marketing business. The refinery runs have grown at a 6.0% compound annual rate for the last ten years and the statistics are as follows:

Year	Refinery Runs to Stills (in barrels)
1956	23,073,724
1957	29,642,259
1958	28,896,299
1959	34,591,416
1960	33,409,726
1961	33,363,847
1962	33,684,797
1963	39,025,203
1964	38,410,987
1965	39,049,233
1966	41,426,235

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The company's refinery operations are at four separate refinery locations and the rated capacity in late 1967 is as follows:

Location of Refinery	Rated Capacity in b/d)
Montreal East, Que.	59,000
Port Credit, Ont.	37,000
Edmonton, Alta.	16,000
Halifax	13,500
Total Capacity	125,500

An interesting criteria for comparing integrated oil companies is the relationship of net crude oil produced by the company as compared to the amount of crude oil it refines in order to determine the self-sufficiency of the company. Texaco Canada at 11.0% rates substantially below the other three major Canadian integrated oil companies. However, the next table demonstrates the rapid improvement of Texaco Canada. In addition, the ratio should approach 14% for 1967 and with the potential of North Zama to double reserves and production for Texaco Canada by 1970 and the effect of Alberta prorationing regulation in 1969 on the company's prolific Alberta oil fields, Texaco Canada's self-sufficiency ratio could reach 30% by 1970.

Company	1966 Self-Sufficiency Ratio (net)
B.A. Oil	37.6%
Imperial	36.7%
Shell	31.6%
Texaco	11.0%

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Texaco Canada

Year	Self Sufficiency Ratio
1957	6.8%
1958	4.8%
1959	5.7%
1960	5.9%
1961	8.1%
1962	9.6%
1963	8.7%
1964	9.3%
1965	10.2%
1966	11.0%

Oil Production and Reserves

Since 1961, total Canadian production of crude oil and natural gas liquids has increased at a compound annual rate of 8.0%. In this same five year period, Texaco Canada's gross production increased at a compound annual rate of 11.4%, thus improving the company's share of total Canadian crude oil and natural gas liquid production.

Production of Oil & Natural Gas Liquids

	1962	1963	1964	1965	1966	5 year compound annual growth rate
			(in thousands of barrels)			
Total Canadian	268,417	283,847	311,933	339,100	365,700	8.0%
% increase	14.3%	5.7%	9.9%	8.7%	8.0%	
Texaco Canada (gross)	3,652	3,840	4,086	4,554	5,135	11.4%
	22.2%	5.2%	6.4%	11.5%	12.8%	
Texaco Canada (net)	3,252	3,402	3,593	3,978	4,530	11.0%
	20.9%	4.6%	5.6%	10.7%	13.9%	

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Texaco Canada has not reported petroleum reserves since 1962 but a reasonable estimate is that the company's reserves have increased the same percentage as their annual production rate. This assumption implies that Texaco Canada's life index of oil reserves remained constant while the Canadian average reserve life index increased from 20.2 years to 28.9 years. Another way of stating this conservative assumption is that Texaco increased their reserves by 68.0% while the Canadian total reserves increased by 90.6% since 1961.

Crude Oil and Natural Gas Liquid Reserves

	1961	1966	% increase
	(million barrels)		
Canada	4,749.2	9,051.0	90.6
Texaco Canada (net)	106.0	178.0* est.	68.0

*estimated to have grown at the same rate as Texaco Canada's production increases of 68.6% from 1961 to 1966.

An important factor in determining the future growth rate of an oil company's oil production is the location of the company's oil reserves. Alberta is the only province in Canada that can increase its oil production from current reserves because virtually all the North American oil wells outside of Alberta and Texas are operating at capacity. Alberta is operating at less than 50% of capacity. Texaco Canada has

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almost all its oil reserves in Alberta. Furthermore, a major portion of the company's oil reserves are in the prolific fields such as Swan Hills, Bonnie Glen, Wizard Lake and Redwater. These prolific fields will get substantially higher allowables from the new Alberta prorationing regulations fully effective mid-1969 and from expanding markets for Alberta oil.

		% of Reserves in Alberta
1)	Texaco Canada	97%
2)	Imperial Oil	85%
3)	B.A. Oil	60%
4)	Shell Canada	40%

Although Texaco Canada does not release information on the particular amount of oil production from each oil field, some insight can be gained by looking at the company's favourable position in Swan Hills Unit No. 1. In this field, Texaco Canada has a 17% interest through Regent Refining. This 17% interest will amount to an approximate 1,530,000 barrels annual production which is 30% of Texaco Canada's 1966 gross oil production. With this good representation in Swan Hills and favourable representation in Bonnie Glen, Wizard Lake and Redwater, it is safe to assume that over 50% of the company's production comes from the prolific Alberta oil fields, which of course are going to be the only substantial benefactor of the new prorationing regulations and the probable new markets in the U.S.

A fact that is not appreciated by many investors is that Texaco Canada has developed a considerable amount of oil production and reserves.

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It now ranks reasonably close to the other three major Canadian integrated oil companies in terms of oil reserves per $100 market value of common stock and is likely to surpass the other three companies this year because of Texaco Canada's current and probable future success at North Zama.

Crude Oil and Natural Gas Liquids

Data (1966 statistics)	B.A. Oil	Imperial	Shell	Texaco
Net Reserves (million Barrels)	506	1,351	428 est.	178 est.
Net Annual Production (million barrels)	24.65	46.43	19.70	4.53
Current market price	$37.	$65.	$30.	$29.
No. of shares outstanding (millions)	21.85	31.79	21.06	9.72
Common stock Ratios:				
Production per share (in barrels)	1.13	1.46	0.94	0.47
Reserves per share (in barrels)	23.2	42.5	20.3	18.3
Reserves per $100 market value	62.7	65.0	67.6	63.1

A comparison of the four integrated oil companies with the favorite Canadian oil producers, i.e., Hudson's Bay Oil and Gas, Dome Petroleum, Canadian Superior and Central Del Rio, reveals that in many cases the integrated oil companies have more oil reserves (or production) per $100 of market value than Canadian oil producers. For example, Hudson's Bay Oil and Gas has only 40 to 50 barrels of oil per $100 market value of common even when the North Zama reserves are included, while the integrated oils are all well in excess of 60 barrels per $100 market value of common when North Zama reserves are included. The Hudson's Bay Oil and Gas figures are as follows:

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HUDSON'S BAY OIL AND GAS
(as at June 30, 1967)

Proven reserves of crude oil and natural gas liquids:	283,200,000 bbl.
Probable reserves of crude oil and natural gas liquids:	60,800,000
	344,000,000 bbl.

No. of common shares outstanding : 18,294,000

	Proven	Proven & Probable
Reserves per share	15.48 bbl.	18.80 bbl.
Reserves per $100 market value	40.74 bbl.	49.47 bbl.

Exploration

Prior to 1949, Texaco Canada conducted its own exploration in Canada. However, in an agreement, which became effective Oct. 1, 1949, Texaco Exploration Company purchased the company's remaining 50% working interest in oil and gas rights on approximately 2,500,000 acres and certain other assets for $1,611,021 plus a conditional royalty interest of 10% of the share of Texaco Exploration Company in any oil and gas produced from the acreage. Under the same agreement, the company purchased a 50% interest in certain producing acreage owned by Texaco Exploration Company in the Redwater field. The agreement also gave Texaco Canada the right to participate under certain circumstances in future acquisitions by Texaco Exploration Company of oil and gas acreage. Texaco Canada also retained

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the right to take a working interest up to 50% in all Crown acreage acquired by Texaco Exploration Company by competitive bidding.

Five years later, on January 1, 1954, Texaco Canada hired its own exploration team and has been reasonably active since 1954 on its own behalf in addition to continuing its working agreement with Texaco Exploration Company. Texaco Canada's land position at the end of 1966 was 1,148,000 net working interest acres and 62,000 net royalty interest acres. In addition, the company can participate up to 50% working interest in Texaco Exploration's vast crown lease acreage. This means that Texaco Canada can participate in the large land holdings of Texaco Exploration Company immediately west of the Rainbow and North Zama area.

Current activity includes geophysical work and drilling in Northern Alberta, development drilling at Willesden Green, and a heavy oil project at Cold Lake.

The success of Texaco Canada's exploration program can best be illustrated by the rapid growth of oil production which was mainly gained by exploration and not by acquisition:

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Year	Texaco Canada Net Production of Crude Oil and Natural Gas Liquids (in barrels)
1949	50,435
1950	253,191
1951	389,640
1952	660,694
1953	1,137,419
1954	1,303,953
1955	1,708,444
1956	2,208,734
1957	2,024,096
1958	1,374,365
1959	1,956,333
1960	1,977,007
1961	2,689,453
1962	3,251,994
1963	3,402,152
1964	3,592,516
1965	3,978,242
1966	4,530,352

However, the most interesting area by far is the company's wholly owned 26,000 lease acres at North Zama.

North Zama

Texaco Canada's 26,000 lease acres at North Zama were purchased in 1962 at a cost of a few cents per acre. The company drilled its first successful oil well on this property in March 1967. At the April 30, 1967 land sale Texaco Canada and Texaco Exploration on a 50 : 50 basis successfully bid $6,555,300 for 1,920 lease acres or $3,414.21 per acre. This is a very high price for the North Zama area and shows the two companies' keenness for the potential of North Zama. Industry sources indicate that Texaco Canada has drilled three successful 100% owned oil

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wells, one of which has over 300 ft. of net oil pay, and that jointly the two companies have drilled three successful oil wells. The record for 1967 is indicated to be as follows:

	Texaco Canada (100%)	Texaco Canada (50%) Texaco Explorations (50%)
Oil producers	3	3
Suspended or abandoned	1	1
Drilling	0	1

The total acreage in which Texaco Canada has an interest in North Zama is understood to have about 50 seismic anomolies or "targets". Six of these targets have been drilled to depth and have been proven productive. Activity is likely to accelerate on drilling these other "targets" this winter. Industry estimates of reserves (including secondary recovery) for the pinnacle reefs in this general North Zama area range from approximately two million barrels to twenty million barrels, with the average type pool yielding approximately five million barrels. Using these rough yardsticks, it becomes apparent that Texaco Canada's exploration program is likely to yield somewhere between ten and fifty successful oil wells, which could produce additional oil reserves of 50 to 250 million barrels. (Texaco Canada's current reserves are estimated at 178 million barrels.)

Another approach to analyzing the potential of North Zama for Texaco Canada is to estimate the potential impact on earnings.

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	Now	Per Well Estimates Estimated 1970
Wellhead price	$1.85/bbl.	$2.10/bbl.
Operating costs	(.10)	(.07)
Depletion	(.10)	(.10)
	1.65	1.93
Income tax @ 33.1/3%	.55	.64
Estimated earnings	$1.10/bbl.	$1.29/bbl.
Production allowable -		
daily	300 b/d	400 b/d
annual	109,500 bbl.	146,000 bbl.
Annual income/ well	$120,450	$188,340

Possible Earnings from North Zama

	10 wells	20 wells	30 wells	40 wells	50 wells
Now					
Annual net income (000's $)	1,205	2,409	3,613	4,818	6,027
Earnings/ share	12¢	25¢	37¢	50¢	62¢
1970					
Annual net income (000's $)	1,883	3,767	5,650	7,533	9,417
	19¢	39¢	58¢	78¢	97¢

Earnings Projections

Five year earnings projections have been done in the appendices of this report using two basic assumptions:

1) North Zama situation is ignored

2) No further profit margin improvement

Using these two basic assumptions, 1970 earnings are projected at $2.08/share. The possible 1970 additional earnings from North Zama

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gives an earnings range of $2.27 to $3.05. If there is any profit margin improvement, the impact for Texaco Canada's earnings is quite substantial. For example, a 1/10¢/gal. improvement in product prices would add 18¢ to pre-tax earnings per share or 11¢ per share to after-tax earnings (assuming a 38% tax rate).

A reasonable expectation for 1970 earnings would be as follows:

	1970 earnings per share
Basic operations	$2.08
North Zama	.40
Profit margin improvement	.22
	$2.70

Profitability

Texaco Canada's management has done an admirable job in keeping their return on investment in a first or second position in the Canadian integrated oil industry. This performance has been accomplished in spite of being more heavily oriented in the low profit margin marketing-refining business than the other companies. The major reasons for Texaco Canada's low net profit margin, yet a high return on capital, are a conservative accounting policy and a high efficiency of capital employed. 1967 and later statistics on return on investment are likely to put Texaco Canada far ahead of the other companies because of larger profit increases and larger increases in highly profitable Canadian oil production.

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RATE OF RETURN COMPARISON

1966	B.A. Oil %	Imperial %	Shell %	Texaco %
Net profit margin	7.5	7.8	5.1	5.7
Cash return on capital	13.4	15.9	12.8	15.1
Cash return on common equity	14.8	17.6	12.9	17.3
Net return on capital	6.9	10.0	7.1	8.6
Net return on common equity	7.6	11.3	7.3	10.1
12 year mean				
Net profit margin	6.7	7.4	n.a.	6.1
Cash return on capital	14.6	15.1	n.a.	16.1
Cash return on common equity	15.7	17.3	n.a.	19.0
Net return on capital	5.9	9.0	n.a.	9.0
Net return on common equity	6.2	10.3	n.a.	10.9
5 year mean				
Net profit margin	7.1	7.4	5.1	5.3
Cash return on capital	13.6	15.1	10.5	14.9
Cash return on common equity	15.3	16.9	10.6	16.8
Net return on capital	6.3	9.2	4.6	7.8
Net return on common equity	7.0	10.4	4.6	9.1

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APPENDICES

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APPENDIX I

TEXACO CANADA LIMITED

PROJECTION OF SALES AND OIL PRODUCTION (EX. NORTH ZAMA)

	1962	1963	1964	1965	1966	1967e.	1968e.	1969e.	1970e.	1971e.
Sales of petroleum products (000's bbl.)	33,839	37,019	37,437	38,839	42,067	45,500	46,870	49,210	51,670	54,250
% increase over previous year	+2.3%	+9.4%	+1.2%	+3.9%	+8.1%	+8.1%	+3%	+5%	+5%	+5%
Net crude oil production (000's bbl.)	3,252	3,402	3,593	3,978	4,530	5,290	5,730	6,160	6,680	7,200
	+21%	+5%	+6%	+11%	+14%	+17%	+8%	+8%	+8%	+8%
Sales and services (000's $)	194,522	214,237	224,657	235,116	254,860	279,200	288,590	303,300	319,000	335,400
Less gross pretax income attributable to oil prod. (@ $2.50/bbl.)	8,132	8,500	8,987	9,966	11,360	13,200	14,300	15,400	16,700	18,000
Gross receipts on refined prod. (in 000's$)	186,390	205,737	215,670	225,150	243,500	266,000	274,200	287,900	302,300	317,400
Gross receipts per bbl. of sales	$5.50	$5.55	$5.75	$5.79	$5.79	$5.85	$5.85	$5.85	$5.85	$5.85
Gross receipts per gal. of sales	15.7¢	15.9¢	16.4¢	16.5¢	16.5¢	16.7¢	16.7¢	16.7¢	16.7¢	16.7¢

G. W. NICHOLSON & COMPANY LIMITED

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APPENDIX II
TEXACO CANADA LIMITED
PROJECTION OF EARNINGS (EX-NORTH ZAMA)
(in thousand dollars)

	1962	1963	1964	1965	1966	1967e.	1968e.	1969e.	1970e.	1971e.
Gross Income										
Sales and Services	194,522	214,237	224,657	235,116	254,860	279,200	288,500	303,300	319,000	335,400
Income from Investments	)2,027	)2,125	2,124	2,378	2,416	2,500	2,600	2,700	2,800	2,900
Other Income			242	609	209	200	200	200	200	200
	196,549	216,362	227,024	238,103	257,485	281,900	291,300	306,200	322,000	338,500
Deductions										
Cost and Operating) Expenses)	157,441)	172,504	149,206	153,074	161,795	177,400	180,450	189,460	198,930	208,860
Selling, General &) Admin. Exp.)	1,305*)	426*	30,175	32,629	36,997	39,100	39,370	41,340	43,400	45,570
Deprec., Depletion & Amortization	9,594	12,236	12,475	15,939	12,996	14,000	15,100	16,300	17,600	18,900
Interest & Discount on Long Term Debt	779	1,441	2,106	2,105	1,972	1,900	1,900	1,900	1,900	1,900
Taxes other than Income Taxes	12,826	14,687	17,360	18,798	20,182	21,800	23,800	25,300	27,100	28,800
Provision for Income Taxes	4,898	4,328	4,338	2,407	8,953	10,500	11,660	12,120	12,490	13,100
	186,842	205,622	215,661	224,952	242,896	264,700	272,280	286,420	302,120	317,750
Net Income	9,707	10,740	11,363	13,151	14,590	17,200	19,020	19,780	20,380	21,370
Less Preferred Dividend	150	150	150	150	150	150	150	150	150	150
Net Income on Common	9,557	10,590	11,213	13,001	14,440	17,050	18,870	19,630	20,230	21,120
Net Income per Share($)	0.98	1.09	1.15	1.34	1.49	1.75	1.94	2.02	2.08	2.18
Tax Rate	33.5%	28.8%	27.6%	15.5%	38.1%	38%	38%	38%	38%	38%

*Dry hole costs (1964 was $611,825; unknown thereafter)

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APPENDIX III

TEXACO CANADA LIMITED

PROJECTION OF SOURCE AND APPLICATION OF FUNDS (EX NORTH ZAMA)

in thousand dollars)

	1963	1964	1965	1966	1967 e.	1968 e.	1969 e.	1970 e.	1971 e.
SOURCE									
Net Income	10,740	11,363	13,151	14,590	17,200	19,020	19,780	20,380	21,120
Depreciation, Depletion & Amortization	12,236	12,475	15,939	12,966	14,000	15,100	16,300	17,600	18,900
Long Term Debt	21,560	10,803	--	--	--	--	--	--	--
Other	445	1,487	1,328	216	400	400	400	400	400
	44,981	36,128	30,418	27,802	31,600	34,520	36,480	38,380	40,420
APPLICATION									
Capital Expenditures*	36,664	18,734	20,389	17,017	22,000	22,000	24,000	22,000	22,000
Reduction in Long Term Debt	3,206	3,205	3,205	2,539	2,500	2,500	2,500	2,500	2,900
Dividends Declared-									
Preferred	150	150	150	150	150	150	150	150	150
Common	5,182	5,182	5,343	5,829	6,100	7,000	8,000	9,000	10,000
	45,202	27,271	29,087	25,535	30,750	31,650	34,650	33,650	35,050
CHANGE IN WORKING CAPITAL	(221)	8,857	1,331	2,267	850	2,870	1,830	4,730	5,370
*CAPITAL EXPENDITURES									
Producing	5,432	3,690	9,950	4,572	9,000	5,000	5,000	8,000	5,000
Manufacturing	13,367	3,755	2,262	3,004	4,000	8,000	10,000	8,000	8,000
Marketing	17,770	11,209	8,080	9,321	9,000	9,000	9,000	9,000	9,000
Other	95	79	97	120	-	-	-	-	-

G. W. NICHOLSON & COMPANY LIMITED

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APPENDIX IV
TEXACO CANADA LIMITED
(as of Dec. 31, 1965 and 1966)
CONSOLIDATED BALANCE SHEET

ASSETS

CURRENT ASSETS	1966	1965
Cash	$ 5,604,819	$ 5,774,257
Accounts receivable	53,602,738	50,260,859
Inventories -		
Crude and refined oil products and merchandise valued on average cost basis which in the aggregate was lower than market	41,784,790	40,198,467
Materials and supplies, at cost	1,476,079	1,650,253
Total current assets	$102,468,426	$ 97,883,836
INVESTMENTS		
Investments in non-subsidiary companies at cost	$ 4,087,756	$ 4,156,927
Receivables, secured by mortgages, agreements of sale, etc.	8,178,751	7,209,963
Total investments	$ 12,266,507	$ 11,366,890
PROPERTY, PLANT AND EQUIPMENT, at cost		
Producing	$ 52,993,595	$ 49,478,665
Manufacturing	114,422,039	111,840,026
Marketing	110,191,115	103,745,758
Other	4,543,661	4,580,732
	$282,150,410	$269,645,181
Less: Depreciation, depletion and amortization	149,837,729	140,276,652
Net property, plant and equipment	$132,312,681	$129,368,529
DEFERRED CHARGES		
Prepaid expenses	$ 2,923,403	$ 2,270,388
Premium paid on subsidiary companies' capital stock, less amortization	4,379,275	4,710,961
Other deferred charges	142,904	503,136
Total deferred charges	$ 7,445,582	$ 7,484,485
	$254,493,196	$246,103,740

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TEXACO CANADA LIMITED
AS OF DECEMBER 31, 1965 and 1966

LIABILITIES

CURRENT LIABILITIES	1966	1965
Accounts payable and accrued liabilities		
Affiliated companies	$ 23,653,683	$ 22,770,954
Other	17,479,576	22,378,306
Sales, motor fuel and sundry taxes	9,157,291	8,117,376
Income taxes	7,314,968	1,493,326
Long-term debt due within one year	2,491,875	3,019,550
Preferred dividend payable	37,500	37,500
Common dividend payable	1,457,304	1,457,304
Total current liabilities	$ 61,592,197	$ 59,274,318
LONG-TERM DEBT	$ 42,436,719	$ 44,975,575
SHAREHOLDERS' EQUITY		
PREFERRED STOCK		
4% cumulative redeemable preferred shares of $100 par value (Redeemable at $102.50 on thirty days' notice)		
Authorized - 77,500 shares		
Issued - 37,500 shares	$ 3,750,000	$ 3,750,000
COMMON STOCK AND SURPLUS		
Common shares of no par value		
Authorized - 4,975,526 shares		
Issued - 3,238,453 shares	$ 33,363,744	$ 33,363,744
Earned Surplus	113,350,536	104,740,103
Total common stock and surplus	$146,714,280	$138,103,847
	$254,493,196	$246,103,740

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APPENDIX V

Assumptions for Projections

Net Crude Oil Production

1) No new oil discoveries. Therefore, Texaco Canada's excellent prospects at North Zama are not a factor in these projections.

2) The Company's oil production from current reserves are estimated to grow at 8% per annum, equivalent to the minimum expected growth rate 8% per annum for Alberta crude production. This appears logical because approximately 96% of the Company's oil production comes from Alberta and the Company is well represented in Alberta's prolific oil fields such as Swan Hills, Bonnie Glen, Wizard Lake and Redwater.

Sales of Petroleum Products

1) Volumes sales are estimated to fall to a 3% increase in 1968 because of the absence of Expo 67 and a possible business recession in 1968.

2) Volume sales are estimated to recover to the 10 year growth rate of approximately 5% per annum in 1969 to 1971.

3) Gross pretax income on net crude oil production is $2.50 per barrel.

4) Gross profit margin on petroleum products remains constant at $5.85 per barrel (or 16.7¢ per gallon).

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Earnings Projection

1) Income from investments increases by $100,000 per annum. This income is mostly dividends from pipeline companies.

2) Other income is stable at $200,000 per annum.

3) Cost and operating expenses for 1967 are increased to $3.90 per barrel because of the probable higher costs of crude oil imports during the Middle East crisis. These costs then return to the 1966 experience of $3.85 per barrel for the years 1968 to 1971.

4) Selling, general and administrative expenses are estimated to remain at the average volume relationship for 1964, 1965, 1966 of 84¢ per barrel.

5) Depreciation, depletion and amortization must be combined with the Provision for income taxes for analytical purposes because the company includes deferred taxes in the depreciation account. Therefore, projections are done assuming a constant tax rate of 38% and a 7.8% compound annual growth rate in depreciation, depletion and amortization.

6) Taxes other than income taxes are expected to increase by $1,500,000 to $2,000,000 per annum.

Funds Projection

1) Capital expenditures are expected to remain relatively constant at $22,000,000 to $24,000,000.

2) Dividends are expected to increase at $1,000,000 per annum up to a payout ratio of 47.3% by 1971 from the current payout ratio of 35.5%.

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